

AVONDALE HOUSE

FINANCIAL REPORT

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Avondale House
Houston, Texas

We have audited the accompanying financial statements of Avondale House (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avondale House as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Cornelius, Stegent & Price, LLP

Houston, Texas
September 26, 2019

AVONDALE HOUSE
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 3,472,367	\$ 3,636,061
Program service fees receivable, net	474,538	409,196
Contributions receivable		
United Way Services funding for the next fiscal year	83,769	87,769
Prepaid expenses and other assets	61,120	27,055
Property and equipment, net	<u>6,830,213</u>	<u>6,790,304</u>
 Total assets	 <u>\$ 10,922,007</u>	 <u>\$ 10,950,385</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 84,392	\$ 78,463
Accrued compensation	246,141	244,466
Long-term debt	<u>1,300,884</u>	<u>1,356,062</u>
 Total liabilities	 <u>1,631,417</u>	 <u>1,678,991</u>
 NET ASSETS		
Without donor restrictions	9,161,439	9,123,413
With donor restrictions	<u>129,151</u>	<u>147,981</u>
 Total net assets	 <u>9,290,590</u>	 <u>9,271,394</u>
 Total liabilities and net assets	 <u>\$ 10,922,007</u>	 <u>\$ 10,950,385</u>

The accompanying notes are an integral part of these financial statements.

AVONDALE HOUSE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019			2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities						
REVENUES AND OTHER SUPPORT						
Program service fees	\$ 5,208,272	\$ -	\$ 5,208,272	\$ 4,953,235	\$ -	\$ 4,953,235
Received from United Way	-	167,899	167,899	-	176,736	176,736
Foundation grants	53,000	-	53,000	13,080	100,000	113,080
Donor contributions	140,538	32,361	172,899	83,201	2,704	85,905
Special events, net	120,250	-	120,250	162,149	-	162,149
Interest income	33,891	-	33,891	23,874	-	23,874
Net assets released from restrictions	219,090	(219,090)	-	259,845	(259,845)	-
	<u>5,775,041</u>	<u>(18,830)</u>	<u>5,756,211</u>	<u>5,495,384</u>	<u>19,595</u>	<u>5,514,979</u>
Total revenues and other support						
EXPENSES:						
Program services	4,822,182	-	4,822,182	4,621,705	-	4,621,705
Supporting services						
Management and general	720,302	-	720,302	709,687	-	709,687
Fundraising	194,531	-	194,531	24,243	-	24,243
	<u>914,833</u>	<u>-</u>	<u>914,833</u>	<u>733,930</u>	<u>-</u>	<u>733,930</u>
Total support services						
Total expenses	<u>5,737,015</u>	<u>-</u>	<u>5,737,015</u>	<u>5,355,635</u>	<u>-</u>	<u>5,355,635</u>
Change in net assets from operations	38,026	(18,830)	19,196	139,749	19,595	159,344
Net assets, beginning of year	9,123,413	147,981	9,271,394	8,983,664	128,386	9,112,050
Net assets, end of year	<u>\$ 9,161,439</u>	<u>\$ 129,151</u>	<u>\$ 9,290,590</u>	<u>\$ 9,123,413</u>	<u>\$ 147,981</u>	<u>\$ 9,271,394</u>

The accompanying notes are an integral part of these financial statements.

AVONDALE HOUSE
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2019 and 2018

	2019			
	Program Services	Management and General	Fundraising	Total
Salaries and related expense	\$ 3,633,244	\$ 631,114	\$ 105,319	\$ 4,369,677
Occupancy	303,686	1,924	-	305,610
Specific assistance to individuals	435,772	-	-	435,772
Interest expense	65,457	-	-	65,457
Professional fees	10,696	61,355	39,231	111,282
Supplies	3,765	7,583	-	11,348
Telephone	24,024	349	-	24,373
Postage and shipping	2,512	50	698	3,260
Rental and maintenance of equipment	37,866	2,524	-	40,390
Printing and publications	2,491	3,036	1,583	7,110
Travel	4,665	2,955	-	7,620
Conferences, conventions and meetings	10,360	6,536	-	16,896
Quality assurance fees	65,691	-	-	65,691
Depreciation	200,127	-	-	200,127
Other expenses	21,826	2,876	47,700	72,402
	\$ 4,822,182	\$ 720,302	\$ 194,531	\$ 5,737,015

	2018			
	Program Services	Management and General	Fundraising	Total
Salaries and related expense	\$ 3,422,995	\$ 583,469	\$ -	\$ 4,006,464
Occupancy	270,990	4,461	-	275,451
Specific assistance to individuals	498,407	-	-	498,407
Interest expense	66,958	-	-	66,958
Professional fees	4,443	100,582	-	105,025
Supplies	7,852	6,149	-	14,001
Telephone	20,523	303	-	20,826
Postage and shipping	4,502	9	-	4,511
Rental and maintenance of equipment	39,116	170	-	39,286
Printing and publications	2,775	-	-	2,775
Travel	6,247	695	-	6,942
Conferences, conventions and meetings	4,221	10,803	-	15,024
Quality assurance fees	66,447	-	-	66,447
Depreciation	189,534	-	-	189,534
Other expenses	16,695	3,046	24,243	43,984
	\$ 4,621,705	\$ 709,687	\$ 24,243	\$ 5,355,635

The accompanying notes are an integral part of these financial statements.

AVONDALE HOUSE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from program service fees, public support and government grants	\$ 5,660,978	\$ 5,405,965
Interest received	33,891	23,874
Cash paid to suppliers	(1,195,347)	(1,152,403)
Cash paid for employee compensation, benefits and taxes	<u>(4,368,002)</u>	<u>(3,942,001)</u>
Net cash provided by operating activities	<u>131,520</u>	<u>335,435</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(240,036)</u>	<u>(73,569)</u>
Net cash used in investing activities	<u>(240,036)</u>	<u>(73,569)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(55,178)	(53,906)
Payments on capital lease obligations	<u>-</u>	<u>(3,378)</u>
Net cash provided by financing activities	<u>(55,178)</u>	<u>(57,284)</u>
INCREASE (DECREASE) IN CASH	(163,694)	204,582
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,636,061</u>	<u>3,431,479</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 3,472,367</u></u>	<u><u>\$ 3,636,061</u></u>
RECONCILIATION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	<u>\$ 19,196</u>	<u>\$ 159,344</u>
Adjustments to reconcile excess of support and revenue provided by operating activities:		
Depreciation and amortization	200,127	189,534
(Increase) decrease in program service fees receivable	(65,342)	(86,868)
(Increase) decrease in United Way Services funding	4,000	1,728
(Increase) decrease in other current assets	(34,065)	90
Increase (decrease) in accounts payable and accrued liabilities	<u>7,604</u>	<u>71,607</u>
	<u>112,324</u>	<u>176,091</u>
Net cash provided by (used in) operating activities	<u><u>\$ 131,520</u></u>	<u><u>\$ 335,435</u></u>

The accompanying notes are an integral part of these financial statements.

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization:

Avondale House (the Organization), a nonprofit organization, is incorporated under the laws of the State of Texas for the purpose of providing day school and residential care for autistic and other children requiring special educational services. Avondale House is an affiliate of the United Way of Greater Houston. The business and affairs of Avondale House are managed by a Board of Directors.

Basis of presentation:

The financial statements of Avondale House have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Avondale House to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Avondale House's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulation imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Avondale House or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulate the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations:

The statements o activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Avondale House's ongoing program services and interest earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and cash equivalents:

Avondale House's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (continued)

Concentrations of credit risk:

Financial instruments that potentially subject Avondale House to concentrations of credit risk consist principally of cash and cash equivalents and investments. Avondale House maintains its cash and cash equivalent in various bank accounts that, at times, may exceed federally insured limits. Avondale House's cash and cash equivalent accounts have been placed with high credit quality financial institutions. Avondale House has not experienced, nor does it anticipate, any losses with respect to such accounts.

Contributions receivable:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of June 30, 2019, the Organization's contributions receivable consisted of unconditional promises to give in the amount of \$83,769, which is expected to be collected within one year. As of June 30, 2018, contributions receivable consisted of unconditional promises to give in the amount of \$87,769.

Property and equipment, net:

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to forty years. Avondale House's policy is to capitalize renewals and betterments acquired for greater than \$5,000 and expense normal repairs and maintenance as incurred. Avondale House's management periodically evaluate whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Investments:

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurements:

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an order transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritized investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Avondale House groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Contributions:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulation regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (continued)

In-kind donations:

Several volunteers have made significant contributions of their time in furtherance of Avondale House's mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional expenses:

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of time and effort, as well as depreciation and occupancy, which are allocated on a square foot basis.

Estimates:

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes:

Avondale House is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2015.

New accounting pronouncement:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Avondale House has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies (continued)

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2. Availability and Liquidity

The following represents Avondale House's financial assets at June 30, 2019 and 2018:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,472,367	\$ 3,636,061
Contributions receivable	<u>83,769</u>	<u>87,769</u>
Total financial assets	3,556,136	3,723,830
Less amounts not available to be used within one year:		
Net assets with donor restrictions	129,151	147,981
Less net assets with purpose restrictions to be met in less than a year	(83,769)	(87,769)
Board-designated funds for future use	<u>-</u>	<u>-</u>
	<u>45,382</u>	<u>60,212</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,510,754</u>	<u>\$ 3,663,618</u>

Avondale House's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.4 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

Note 3. Property and Equipment, net

Property and equipment, net consisted of the following at June 30, 2019 and 2018:

	<u>Estimated Life</u>	2019	2018
Land		\$ 2,539,999	\$ 2,539,999
Buildings	30 years	5,644,255	5,438,185
Motor vehicles	5 years	181,754	181,754
Equipment and fixtures	5 years	<u>956,568</u>	<u>922,602</u>
		9,322,576	9,082,540
Less - accumulated depreciation		<u>2,492,363</u>	<u>2,292,236</u>
		<u>\$ 6,830,213</u>	<u>\$ 6,790,304</u>

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 4. Long-term Debt

	2019	2018
Note payable in monthly installments of \$10,053 including principal and interest at 4.75% for five years, then at prime rate +1%, until maturity September, 2024, secured by 5.52 acres of land	\$ 1,300,884	\$ 1,356,062
Less current maturities	<u>59,109</u>	<u>55,178</u>
	<u><u>\$ 1,241,775</u></u>	<u><u>\$ 1,300,884</u></u>

Maturities of long-term debt are as follows:

Year ending June 30, 2020	\$ 59,109
Year ending June 30, 2021	62,187
Year ending June 30, 2022	65,249
Year ending June 30, 2023	68,462
Year ending June 30, 2024 and thereafter	<u>1,045,877</u>
	<u><u>\$ 1,300,884</u></u>

Note 5. Obligations Under Capital Leases

Equipment recorded under capital leases is included in Property and Equipment, net as follows:

	2019	2018
Machinery and equipment	\$ 15,947	\$ 15,947
Less accumulated amortization	<u>14,238</u>	<u>11,960</u>
	<u><u>\$ 1,709</u></u>	<u><u>\$ 3,987</u></u>

The lease was paid off during the year ended June 30, 2018.

Note 6. Net Assets

Net assets with donor restrictions were as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Specific Purpose:		
Funds from United Way	\$ 83,769	\$ 87,769
Funds from Friends of Avondale House	22,582	22,992
Funds from grant for specific program services expenses	<u>22,800</u>	<u>37,220</u>
	<u><u>\$ 129,151</u></u>	<u><u>\$ 147,981</u></u>

AVONDALE HOUSE
NOTES TO FINANCIAL STATEMENTS

Note 6. Net Assets (continued)

Net assets without donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Undesignated	\$ 9,161,439	\$ 9,123,413
Board-designated net assets	<u>-</u>	<u>-</u>
	<u>\$ 9,161,439</u>	<u>\$ 9,123,413</u>

Net assets released from net assets with donor restrictions are as follows:

	2019	2018
Specific purpose	\$ 219,090	\$ 259,845
Passage of time	<u>-</u>	<u>-</u>
	<u>\$ 219,090</u>	<u>\$ 259,845</u>

Note 7. Salaries and Related Expenses

Payroll is outsourced, and the Organization offers its own retirement plan to its employees. Full-time employees are eligible to participate in the retirement plan. A participant can contribute up to 100% of his or her annual compensation to the plan, subject to Internal Revenue Code limitations, regardless of the number of years of employment. Avondale House may make discretionary contributions to participant accounts, up to 4% of their compensation. During the years ended June 30, 2019 and 2018, Avondale House recorded contributions of \$73,640 and \$71,878, respectively, to the Plan.

Note 8. Subsequent Events

Avondale House has evaluated subsequent events through September 26, 2019, which is the date the financial statements were available to be issued. Avondale House is not aware of any material subsequent events.